Environmental Finance

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FOREST FOOTPRINT DISCLOSURE

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Investment, transparency and corporate efforts to tackle deforestation

SPECIAL REPORT // OCTOBER 2011

Stellenbosch University ecological network research

Ecological network with an unburned corridor in the foreground, a burned corridor in the middle and a reserve in the background.

What is an ecological network

Ecological networks (ENs) are composed of remnant set-aside natural land for mitigating any negative effects of intensive land-use such as plantation forestry. ENs consist of large scale interconnecting linkages (corridors or stepping-stone patches) and nodes (mini or true nature reserves) that together play an important role in ensuring connectivity across the landscape. This ensures organisms disperse on evolutionary as well as on ecological time scales.

ENs feature design and management strategies that link important areas together and so reduce the effects of fragmentation, and also create extra space for organisms to survive in these ENs as if they were protected areas.

Ecological network research at Stellenbosch University

Research at the Department of Conservation Ecology and Entomology, Stellenbosch University, is finding ways to mitigate biodiversity loss due to agriculture and forestry. The Mondi sponsored Mondi Ecological Network Programme within the department maintains a core research team dedicated to Ecological Networks for agriculture and forestry plantations. Research on the implementation, design, management and effectiveness of ENs within the South African plantation forestry context is a central theme of this research.

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Introduction

Why disclose?

Reason enough to disclose?

Collecting and disclosing information on the commodities driving deforestation can pose challenges for many companies – but, says James Hulse, the effort is repaid in better management, reduced risk and reassured investors

The Forest Footprint Disclosure (FFD) project is a relatively new addition to the disclosure request arena – the latest appeal from investors for companies to report on an aspect of non-financial performance. FFD's unique contribution is in linking deforestation activity and its implications for global climate change to the behaviour and buying practices of global companies.

We focus on the five key 'forest risk commodities' which are responsible for most deforestation: timber, soya, palm oil, cattle products (beef and leather) and biofuels. These commodities are in use in hundreds of thousands of products and are embedded in the day-to-day operations of countless companies, from their use of packaging and marketing materials through to the ingredients used in product formulations and in the consumer goods bought and sold.

In addressing this issue, FFD acts on behalf of our current 64 endorsing investors, which manage more than $6 trillion in assets. Every month more investors join up. So why do they take the trouble? It is because they want to understand how the companies they invest in or might invest in manage commodity-related risks. This means that they can in turn make informed judgements about the risks they are holding, and better understand whether there will be security in their sources of value through the coming decades, as the supply of raw materials comes under growing pressure in a resource-constrained world, and as international policies to mitigate climate change reorganise political attitudes to land use and land-use change.

Why such a focus on deforestation? It currently accounts for around 20% of global anthropogenic carbon emissions – more than the entire transport sector – and tackling this problem will help to mitigate climate change, as well as improve social and economic conditions for the many millions of people who rely on forests for their livelihoods. A recent study by the University of Leeds shows that standing forests absorb almost 40% of manmade carbon emissions every year; so their role in climate mitigation is by far the cheapest way we know of sequestering carbon. Deforestation itself releases around 10.8 billion tonnes of carbon into the atmosphere, when forests are cleared for land conversion to agriculture, industry or human settlement. This is a major source of emissions and one we urgently need to reduce.

Large-scale agriculture produces most land use change, by converting forested land to growing areas for both food

CASE STUDY

Mondi – shaping up for a sustainable future

International paper and pulp company Mondi Group says the FFD project provides a valuable platform for communicating and improving the image of the broader forestry sector.

"The basic principle is that deforestation is a critical issue and it affects our business," says Peter Gardiner, London-based natural resources manager at Mondi. As companies compete for increasingly scarce resources, he believes that any request to report on deforestation issues is "a ginormous step in the right direction" and one that encourages greater transparency and builds awareness of the importance of responsible forestry.

Gardiner points to the forestry industry's recent 'dark past', when it became associated in the public mind with poor environmental standards, and says that the FFD project offers an opportunity to "start communicating the positive aspects of the forest products industry" and how it can "shape up" to a sustainable future.

and biofuels, so improving how organisations manage the procurement and supply chains of their commodities can have a rapid impact. More sustainable management of agricultural land itself improves the land's store of carbon, locking in greater volumes of carbon.

Clearly this is an important topic, but what is the internal business case for disclosing? After all, sourcing data and filling in any questionnaire takes time, so what does a company get in return?

In addition to gathering data on behalf of investors, FFD actively helps companies along the road to working to best practice, and assists them in communicating this progress to the investment community.

FFD shows its support for disclosing companies by presenting each of them with a personalised company-level report highlighting how they compare to their sector, and showing where they face risks or have opportunities to improve their operations with a clear SWOT (strengths, weaknesses, opportunities and threats) analysis. Internal teams find this a useful device for benchmarking their efforts. We follow up with feedback sessions, ensuring that the process isn't just about data exchange. The process is designed to be collaborative, with FFD providing access to information globally and promoting case studies to facilitate companies in their journey towards sustainability, whether they start as complete beginners or experts.

Forest Footprint Disclosure is a useful tool for companies to assess and develop their internal risk management on forest risk commodities

FFD is different to other disclosure requests in that it doesn't rank companies, except to identify the best company in each sector based on the information provided to us, nor does it release company scores or reports to the public – so there is no risk of being 'named and shamed'. Indeed, FFD encourages all companies to participate no matter how well developed their policies. The project also hosts webinars and events, from introductions to the various commodities through to analysis of scientific research and its relevance to the corporate sector. FFD also advises companies on current certification standards and collaboration opportunities and as part of the feedback process we

CASE STUDY

British Airways – beyond carbon

As one of the world's leading airlines, British Airways (BA) is perhaps more keenly aware than others of the vital link between greenhouse gas emissions and its core business. In responding to the FFD – the only airline to do so in the first year of the project – BA has consciously decided to expand on its carbon commitment to consider its impact on deforestation.

"The most obvious link for involvement is the carbon and for BA it's the biggest environmental challenge," says Patrick Spink, environment executive at the UK-based airline.

But in "trying to look that little bit further", disclosing to the FFD presents an obvious way for BA to demonstrate its commitment to tackling environmental issues. It also serves to enhance the airline's corporate reputation among an increasingly environmentally-aware customer base.

In addition, disclosure has given BA a better insight into the intricacies of its relationship with forest-linked commodities.

"We had an appreciation of the impact but we didn't understand the details," he says, adding that the project has "enabled ways to pro-actively take steps to improve the sustainability of our supply chain".

BA has policies in place to ensure that timber is purchased from sustainable sources, while it is endeavouring to embed sustainability across its catering, with a focus on sustainably-sourced palm oil and soy products. The airline is also taking a closer look at its relationship with renewable fuels, and is a member of the Roundtable on Sustainable Biofuels.

Spink also notes that the FFD has also provided a "fantastic arena" to share knowledge with a diverse group of companies. **Charlotte Dudley**

Patrick Spink, BA: "Trying to look that little bit further"

For Mondi, which is active in forest certification and management schemes, and is a member of the World Business Council for Sustainable Development, participation in the FFD project strengthens the work the company is already engaged in. Disclosing to the FFD hasn't had a direct impact on the way the group operates, says Gardiner, but it has prompted increased scrutiny of its suppliers and given a clearer picture of how forestry is impacting its peers and competitors.

"It's made us look at our systems in terms of how accurate, how reliable and how robust they are, and it's made us look very hard at our supply chain," he says.

In the future, Gardiner says he would like to see the project broaden its scope to incorporate wider sustainability issues, but in the meantime he says getting companies to focus on forestry is of "immense importance". **CD**

Rolling out better disclosure at Mondi

Introduction

alert them to any changes which may impact on their business model.

FFD is therefore a useful tool for companies to assess and develop their internal risk management on forest risk commodities, and many disclosers have found the process of information gathering and policy analysis to be very worthwhile. Clearly, the time required for a consumer-facing global business, with hundreds of suppliers, to complete the questionnaire is greater than that for a small primary producer but, as the recent campaign by Greenpeace aimed at Mattel (for its use of unsustainably sourced packaging) shows, it is vital to understand how your commodities are sourced, as there can be huge reputational risks involved. Given the issues around security of supply for commodities, the disclosure process offers a chance for companies to identify potential problems in a timely manner and to improve the resilience of their supply chains.

Legislation is also increasingly influencing corporate behaviour in commodities. The Lacey Act in the US and timber regulations in Europe are seeking to remove illegal timber from the value chain and make it an offence to import such products, with the onus on the purchaser to show traceability and a formalised due diligence process. With the emergence of voluntary standards in palm oil, soya and biofuels, through their respective roundtables, there is increasing pressure on companies to improve their practices as certified sustainable products enter the marketplace. Early adopters of these standards may well gain a competitive advantage while those companies who are late to the game may discover that is it more difficult to secure favourable terms with their suppliers, that key customers have moved on, or that they are heavily exposed to incoming legislation.

And so, while we appreciate that it takes time and effort to analyse the performance of your business, wherever you are in the value chain, and to source the information required to fill in a questionnaire, we believe the payback is worthwhile. The reputational, operational and supply chain risks are

CASE STUDY

Reed Elsevier – stronger investment case

Mark Gough, London-based global environment manager at Reed Elsevier, says the company's participation in the FFD project supports the environmental management work it is already doing and has allowed it to build a stronger investment case for addressing forestry supply issues in its supply chain.

The global publisher, which has participated in the FFD project from the beginning and was named sector leader in 2010, is a founding member of the Publishers Database for Responsible Environmental Paper Sourcing, which rates the sustainability of its paper sources. When the FFD project was launched in 2009, Reed saw disclosure as an opportunity to deepen the investment case for its forest-sensitive efforts.

Mark Gough, Reed Elsevier: investor pressure driving disclosure

"All of these [environmental] surveys ask questions that help us to develop our internal strategies. But we don't just rely on that of course, we rely on other big investors – and investors are a big driver for us," he says.

In addition to supporting its existing work on sustainability, disclosure has pushed the company to engage more closely with its suppliers.

"We'd never thought we had a big involvement with soy," says Gough. Soy ink is emerging as an environmentally-friendly alternative to traditional inks – but it poses deforestation risks. "We now ask questions of our supply chain around soy to identify if that's becoming more material for us," Gough adds. CD

CASE STUDY

Stora Enso – building awareness

"There's always the possibility to do more," says Antti Marjokorpi, manager at Finnish paper maker Stora Enso – and the firm focuses on what it stands to gain from disclosing to the FFD project.

The opportunity to share information and learn about best practice from companies in a range of sectors are among the benefits of Stora Enso's involvement in the project, while the fact that it is backed by high-level investors lends the project additional credibility, Marjokorpi says.

Like many of its competitors, Stora Enso's efforts to address sustainability in its supply chain, through certification initiatives and targets, predates the launch of the FFD project. However, the company says participation in the project acts an additional layer to its existing sustainability commitments.

And while it's too early to judge the extent to which the FFD project has been successful in influencing wider corporate practices, Marjokorpi is clear about one thing – its ability to raise consumer awareness of the impact of business on forestry and to draw attention to the supply chain, particularly around less well understood forest commodity products such as beef, soy and palm oil.

"With the information out there, investors and customers can make conscious and informed decisions", he says. CD

Stora Enso – growing awareness within supply chain

The burning issue

A supply of sustainable biomass is crucial to Drax's plans to move at scale into renewable feedstocks. Nigel Burdett explains

Why is biomass sustainability so important for you?
Drax has ambitions to transform itself into a predominantly renewable generator through burning increasing amounts of sustainable biomass. To achieve this ambition we need confidence in the long-term availability of substantial quantities of sustainable biomass, especially for imported fuels.

We recognised that the key commercial risk to our plan is the perception that some biomass is environmentally negative. In Drax's view, this risk will only be effectively mitigated by the introduction of strict sustainability standards which are comprehensive, legally binding and well implemented. We are not yet at this point, although there has been considerable pressure for change from many environmental NGOs.

Therefore, in 2008 and in the absence of recognised and suitable standards for the procurement of sustainable biomass, Drax developed its own sustainable biomass programme in order to set a clear international benchmark for biomass suppliers. Suppliers are required to comply with a set of seven principles ensuring a minimum, and improving, performance on biodiversity protection and improvement; social factors; avoiding use of food and building materials; and good agricultural and forestry practice.

Why did you not wait for legislation?
We believe that any biomass used for energy should be sustainable. This not only makes sense from a business perspective, that is longevity of feedstock, but it is also essential for environmental, economic and social reasons.

Against a body of increasing concern over the consequences of the use of biomass for energy and its sustainability (for example, food versus fuel and carbon footprint concerns) we identified the need to implement credible standards.

These criteria were designed, in the absence of national and international legislation, to meet or exceed any likely emerging standards across the whole sustainability spectrum of life cycle, social and environmental issues. This initiative has been extremely valuable since the anticipated development of credible international sustainability schemes for biomass has been slow. Drax aims to be ahead of legislation, not just to avoid negative publicity, but also to help establish regulatory frameworks around the Drax model that will permit long-term contracting for sustainable biomass.

Part of Drax's biomass co-firing facility

Can you outline your process for ensuring that your fuels are sustainable?
Our sustainability programme is integrated into the whole biomass procurement process and has a significant impact upon it. Indeed, the supplier often has to qualify the fuel on sustainability grounds before discussions commence on availability and price.

Drax is active in promoting sustainable biomass procurement practices across the whole of the bioenergy supply chain, from fuel cultivation and establishment through to transport and final use. Confidence in the sustainability of the fuel is achieved through a programme of information exchange and an improvement programme backed up by qualified, independent third parties to audit the biomass supply chains.

What were the challenges to implementing the policy?
Suppliers are now aware that non-compliance with our sustainability policy will not lead to a contract. The experience they have gained implementing the policy will be beneficial as sustainability standards and associated methodologies are developed. Our suppliers can be confident that compliance with the standards will put them in an excellent position in the growing market for sustainable biomass. Similarly, we have had an early opportunity to identify those supplies which have the greatest likelihood of compliance with current standards and to test their robustness against a potential increasing stringency of those standards.

Interaction with these suppliers is leading to the development of long-term contracts. Through the implementation of our sustainability policy, we have learnt that the closer the supplier is to the field, the better the ability for them to manage the sustainability of the total supply chain. Due to this, we push to contract with the actual owner of the land that the biomass is grown on, giving us a larger ability to influence the practices on the ground.

What has the reaction from NGOs been?
The potential for partnership with NGOs and other groups is being examined. Initial outcomes of discussions regarding our biomass policy have been positive, with the social and ethical aspects of the policy especially providing reassurance regarding implications for land rights and indigenous populations in overseas operations. We are currently examining how to work with NGOs by offering the opportunity to contribute to the development of audit protocols in order to minimise risks and optimise synergies and expectations.

Where do you think that legislation will move to now?
The UK's Department of Energy and Climate Change has led the way in Europe by introducing regulations around sustainability standards for biomass usage, building on European Commission guidance. The next step is for these regulations to be introduced across Europe in order to minimise the potential for unsustainable (and therefore probably cheaper) biomass to be used extensively by our competitors.

Dr Nigel Burdett is Head of Environment at Drax, which operates the UK's largest coal-fired power plant and largest biomass co-firing facility in the world.
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Introduction

CASE STUDY

Carrefour Group – measuring up

For French retailer Carrefour, participation in the FFD project presents manifold benefits – it facilitates investor communication, shapes expectations and provides a useful benchmark against others in its sector.

Carrefour – choosing disclosure

Carrefour, which operates almost 10,000 stores in more than 30 countries, has disclosed since the FFD was launched in 2009 and was named joint sector leader in the 2010 FFD project alongside the UK's J Sainsbury.

"One of the main values of FFD is that the project enables our company to let investors know about our performance, good practices and risk management linked to deforestation and responsible sourcing," says Agathe Grossmith, sustainable development manager at Carrefour Group.

"For any company, disclosing implies assessment and reporting which are the first necessary steps towards improvement," she says. "Disclosing information is part of this dialogue which is essential to identify priorities. By disclosing information, the FFD project helps to create an expectation among investors."

But it's not just the investors who are benefiting from the improved communication. Disclosure by others in the food and drug retailers sector has made it easier for Carrefour to measure itself against its competitors. Both sector comparison and broader disclosure "challenges the way our group is managing its forest-linked sourcing and encourages us toward progress", says Grossmith.

Through efforts such as certification schemes and a commitment to zero deforestation by 2020, forestry and wider sustainability issues were already on the table at Carrefour before the FFD came knocking. While Grossmith says involvement in the FFD has not directly changed the way Carrefour operates, it has given further impetus the group's direction of travel. **CD**

very high in these commodities, and the consumer, legislative and market drivers are likely to increase those risks still further. We believe it is better to invest some time now than try and undertake a rapid response in a crisis situation. FFD offers a chance to make businesses more resilient to change and more sustainable. And the opposite of a sustainable business is simply an unsustainable business, environmentally, socially and economically.

Within the asset management community, it can be difficult for companies' messages about internal efforts to make their operations more sustainable, or about how they are managing their supply chains to use better practice, to really resonate. Far too often these details are left unread in attractive but wordy corporate social responsibility reports. FFD works alongside our endorsers to help them make the connections between companies' investments in sustainable agriculture and raw materials sourcing and the business case – by repositioning the impact of these issues in the language of finance, that is, in terms of risk and opportunity.

We work to join up the dots – by helping investors, particularly those without specialist teams, work out the role of certification systems as a proxy for sustainability, communicate the place of roundtables and the role they can play in influencing them, and generally separate corporate PR from what is true corporate collaboration. We aim to bring to their attention the impact of better management on future corporate value. There won't be income streams and profits to be made if there aren't long-term healthy companies, and unless these companies help their investors to recognise that some money spent now is actually a sound investment in securing their value making capacity in the future.

FFD wants the companies leading on forest risk mitigation to be seen as more valuable longer-term and to enjoy the returns on their investment. **EF**

James Hulse is the London-based director of the Forest Footprint Disclosure Project. E-mail: j.hulse@forestdisclosure.com

CASE STUDY

Neste Oil – ahead of the pack

As the sole oil and gas sector respondent in the first two years of the FFD project, Finnish oil refiner Neste Oil is evidently ahead of its peers. The company views disclosure as an important opportunity to learn from businesses across a wide range of sectors and to better engage its suppliers.

"It's been an important tool for communication," says Pekka Tuovinen, director of sustainability and regulatory affairs at Neste. He notes that the experience has brought the firm closer to its suppliers, allowing it to more effectively explain the importance of sourcing traceable and sustainable feedstock.

Neste has also benefited from increased collaboration with companies in a wide range of sectors. However, Tuovinen is disappointed with the lack of disclosure from others in the oil and gas business, a situation which makes it harder for the company to make a more meaningful sector-wide comparison.

"We've been able to compare ourselves against others, for example, in the food sector, but not in the oil and gas sector," says Tuovinen. "It's been quite a disappointment to see that although several oil companies are dealing with renewable fuels, none of those ... was willing to disclose, so it's a clear indication that the big players are moving very slowly."

Not that disclosing to the FFD has reconfigured the company's business model, Tuovinen says, but it has served to support Neste's progress on renewable fuels and its ongoing focus on sustainability across the supply chain. Neste is currently using traditional biofuels feedstocks such as palm oil and canola, but is looking more carefully at ways to use more sustainable forestry residue as a raw material, he adds.

"We're recalculating and reconsidering how much forest residue can be taken from the forests to show that it still is sustainable," he says. **CD**

Keeping track of its raw materials – documenting Neste's palm oil supply

A pioneering approach to forestry

For Anglo-South African paper and packaging group Mondi, reporting to the Forest Footprint Disclosure project is an extension of business as usual – but the group, and the sector as a whole, faces communications challenges nonetheless. Peter Gardiner talks to *Environmental Finance*

***Environmental Finance:* What motivated Mondi to engage with the Forest Footprint Disclosure request?**
Peter Gardiner: Mondi is a bit of a pioneering company, and we have a good record of transparency. The project gave us another tool to check to see how we're doing.

How challenging did the company find collecting and collating the information required?
We already collect most of the data, using our in-house sustainable development management system, so it wasn't really much of an issue. We address most of the questions in our annual report and our sustainability reporting.

Did the exercise generate any surprises?
From the point of view of the forestry sector, we're quite conditioned to the type of concept, of measurement, etc. What was a surprise was when we came to interview the Forest Footprint Disclosure project about our response. They had really solid experience and a professional approach, and clearly a great understanding and knowledge of the subject. We got very frank answers to our questions.

To what extent do you feel your shareholders understand the issues around deforestation, and Mondi's response to them?
Not all of them do, but the key investors do. For example, one of our largest shareholders asked us on two occasions to report to its investment/analyst committee – and the big concerns they had were around deforestation. It was a pleasant surprise – it was good to be asked for more information and our approach to issues and they went through our report in some detail and asked us some challenging questions on the content.

We've got a very good record of not being involved in deforestation. Our operations in South Africa originally involved converting grassland while, in Russia, our forestry is focused on natural regeneration and replanting. For every tree felled in our plantation forests, at least one more tree is planted. In our natural forests, felled areas are left to regenerate naturally and poor regeneration is supplemented with plantings. We aren't involved in illegal logging, or logging in tropical rainforests, and we have strict fibre sourcing controls.

Mondi champions 'new generation plantations' (NGPs) – how successful do you feel you have been in communicating the environmental and social case for NGPs?
Early plantations in the 1900s were so successful, compared with growth rates in Europe, that the industry planted 'wall-to-wall' without regard for environmental or social issues. Unfortunately, the industry never responded to those environmental criticisms and it was only after [the 1992 Earth Summit] in Rio that a few companies began working through the World Business Council on Sustainable Development to address the issue.

Since the early 1980s, with the help of local and global NGOs and local community leaders, we've been developing a new generation of plantations leading to responsible forestry, where allowance is made for functioning ecosystems, especially freshwater systems, and the protection of High Conservation Value [HCV] areas.

For example, we've been working with WWF and WESSA [the Wildlife and Environment Society of South Africa] on the Mondi Wetland Programme, removing commercial trees and restoring some very important wetlands. We engage very closely with local conservation bodies, and they've done screening work to look at the irreplaceability of water resources, biodiversity, etc.

Plantations can – if you follow new generation principles – maintain the integrity of the local ecosystem, protect high conservation value areas, and contribute to economic growth and employment.

Certification has also made a huge improvement. Forestry Stewardship Council certification ensures consistent management and continual improvement, and requires that forest owners identify high-conservation value areas as part of the certification.

How does the company tie community relations into its sustainability strategy?
We use our 'social and economic assessment tool' [SEAT] developed with Anglo-American before our [2007] demerger. It requires full engagement with all our stakeholders at key operations at three yearly intervals

The process is made up of four elements: a current profile of our operations and the local community; engagement with local interest groups to consider both positive and negative impacts; the development of a management response designed to maximise the potential benefits and minimise negative impacts; and publication of the SEAT report on our website and in hard copy for distribution to local stakeholders, which provides a benchmark for conduct in future.

The whole thing is about being open, transparent and working with local knowledge.

Peter Gardiner is group natural resources manager at Mondi Group, based in London.

Forest footprint disclosure for beginners

Many companies approached by the Forest Footprint Disclosure project will be reporting on forest risk commodities for the first time. Liz Crosbie explains how the process works

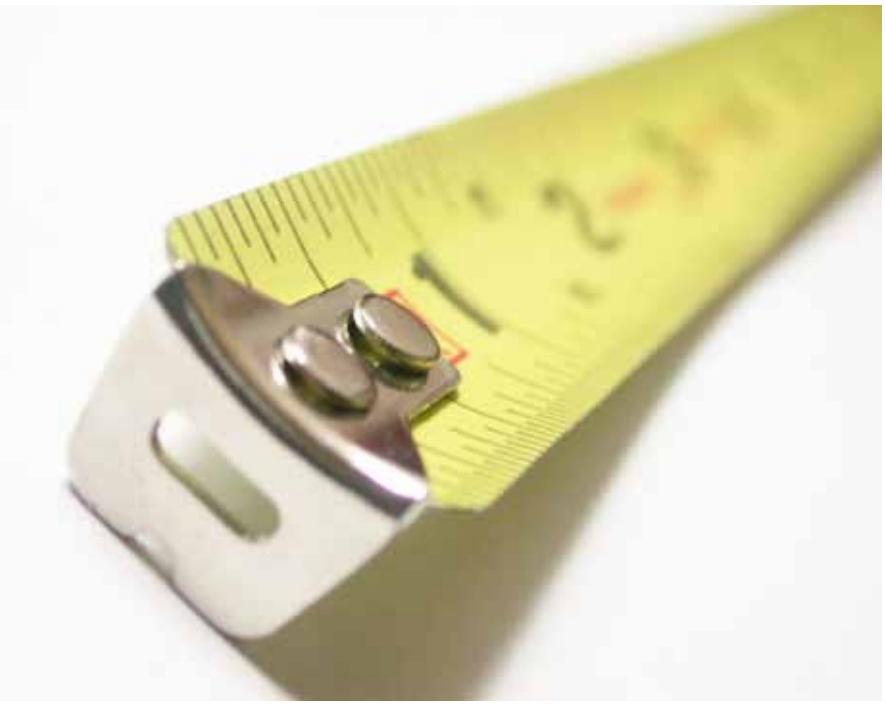
The Forest Footprint Disclosure (FFD) project aims to understand, assess and benchmark companies' management of five key 'forest risk commodities' (FRCs): timber, soy, beef and leather, palm oil and biofuels. Those commodities have been selected because they are the major drivers' of deforestation through the conversion of forested land to large-scale plantations and agricultural areas, displacing populations and reducing biodiversity. As our global population grows, finding a way to provide adequate food is going to be a major challenge over the next 30 years.

As risk management includes many aspects of a business, FFD asks for information about internal processes, not simply the volume of these materials consumed. Businesses can address risk in different ways and FFD has designed its process to allow them to articulate their own response and explain where they are in their risk management around their use of these commodities.

What do I receive?

Companies that we know have a significant forest footprint are profiled annually and a group of those with the largest impact globally are selected for engagement. In June this year, an FFD Disclosure Request invitation was sent out to the selected companies, asking them to download a copy of their personalised documents via the FFD website. This request should be returned by the end of September.

The format is a standard electronic Excel spreadsheet, as FFD anticipates that multiple members of a team will be involved in completing and signing off of the questionnaire. Using this highly portable industry standard tool is designed to make the task as easy as possible. Different language versions are also available.



Measuring up: disclosure helps company benchmarking

What guidance and support can I expect?

Embedded in the document itself is a series of guidance notes to help clarify the key concepts and terminology. A telephone helpdesk service is also available to organisations new to or experiencing problems in filling in the questionnaire, and FFD encourages new entrants to make use of this service and to join in the guidance webinars on offer. To help with time zones, European, Asian and US options are available.

Structure of the disclosure request

The disclosure request is structured around the behaviour FFD would like to see companies adopt, so there are four main sections:

- Deforestation risk assessment;
- Management of FRC issues;
- Coverage of FRCs in operations or supply chain; and
- Reporting, governance, risks and opportunities.

Completing the request

The initial stage details how your organisation approaches risk assessment and allows you to select your range of commodities. If that is as far as your company has got then that is fine – FFD is happy to see engagement at whatever stage of progress.

The next stage is to profile the use of the commodities in your operational and supply base before detailing what public commitment and standards you have adopted. With a framework in place, you can start targeting and managing your performance improvement. There are then opportunities for businesses that have achieved a level of maturity in their response to identify how they help build capacity to become more sustainable within their value chain. Throughout the survey, FFD offers you opportunities to explain your own approach if the standard doesn't fit for whatever reason.

A crucial section of the disclosure request is the coverage section, which details how the organisation has prioritised activity, so the extent of coverage and any target selection process is clarified. For example, a company concentrating on the internal consumption of photocopying paper while ignoring major packaging purchases might find its approach looks a little out of place. So here is your opportunity to argue for the materiality of the process you have adopted. FFD realises there are many factors that influence your decisions; it wants to understand how choices have been made. Finally, where consumption information

in volume or value terms is available, FFD is happy to receive this, although it is not mandatory at this stage.

Completing all the stages of the disclosure request is helpful in structuring an organisation's strategy, and FFD has received feedback from previous disclosures that the time taken clarifies companies' thinking and provides an instant gap-analysis of potential stakeholders' requirements. Internal teams often find it a useful scorecard to use for management reporting.

Scope of reporting

FFD realises that not all commodity risk management systems are mature and, as third-party certified standards are developing at different speeds, it has designed its procedures accordingly. With the wide variety, from mature systems such as the certification of timber to emergent procedures such as beef/leather traceability, there are different expectations for each commodity. For this reason, the scoring system that is used by FFD to evaluate responses can accommodate the use of one or all five commodities.

FFD also asks companies to choose and identify the scope of operations being disclosed. Like the Carbon Disclosure Project, FFD uses the internationally recognised GHG Protocol's Scope levels 1–3, but has adapted them to reflect its own focus. So in FFD, Scope 1 covers direct operations, Scope 2 relates to the organisation's consumption and supply chain management, and Scope 3 covers any impact from customers' activities.

How much time will it take?

For a corporate social responsibility (CSR) professional embedded in the centre of an organisation with good understanding of the issues and procedures in place, completing the FFD disclosure request should be an afternoon's work, a maximum of two or three hours. But, for many companies, this might be the first time that they have actually thought about the issues the disclosure request raises. Being realistic, it will take them longer.

Time investment is necessary to gain internal understanding of forest risk commodities, gain agreement to disclose and align the different interest groups within your organisation maybe to accept disclosure even when your policies may not be perfect. This is an investment in protecting the reputation of the business and making sure it is equipped to manage risk.

FFD is very keen to welcome companies at an early stage in their development and help accelerate their development through its outreach programme

For first timers, bringing together the investor relations team, the CSR team, procurement and operational personnel to understand issues at this depth might be a bit of a challenge – but all sides will benefit from hearing the other's perspective. Benefits for corporate affairs teams include more in-depth understanding of the value of responsible procurement. It also allows CSR teams to better understand that perceptions of external value are linked to robust internal procedures. For procurement teams, it helps to understand why commercial decisions need a policy context.

How are we assessed?

Firstly let's be clear that FFD is very keen to welcome companies at an early stage in their development and help accelerate their development through its outreach programme, so you don't have to be perfect to make a start. The project educates companies, engages them in making a commitment, then drives improvement through sharing best practice. So it is best to start early and learn rather than wait to be picture perfect.

The assessment process is also structured to allow recognition of any level of activity involving the use (or sourcing) of one or multiple commodities. A copy of the scoring matrix for the FFD 2011 disclosure request is available to download from the FFD's website (see www.forestdisclosure.com/docs/FFD_Scoring_Overview.pdf).

If you want to start with one commodity or one region of operations, it is best to talk with the FFD secretariat so this can be agreed first.

Keeping score: part of the footprint feedback companies receive

Disclosure request section	Company score	Section maximum	Marks still available
1. Profile of materials bought in (by commodity)	10	10	0
2. Risk assessment	17	25	8
3. Review of your supply chain	24	40	16
4. Public commitments by forest risk commodity	21	25	4
5. Strategy development	17	25	8
6. Managing for performance improvement	38	60	22
7. Sustainable supply chain development and support	16	40	24
8. Scope and coverage	9	40	31
9. Public reporting	18	20	2
10. Governance process	7	10	3
11. Identifying risks and opportunities	0	15	15
Discretionary points	**8**	**40**	**32**

What does FFD do with the information provided?

Disclosing to FFD is a private communication to the FFD secretariat and the endorsing financial institutions that support the project. Your information will never be put in the public domain and FFD does not provide company-specific information to the public.

On receipt, the disclosure response is scored and assessed against the Scoring Matrix. This data is then used to create sector-level information and a whole-year dataset average, statistics which find their way into FFD's annual review report.

In addition, companies receive a personalised feedback report. The company level report includes a SWOT (strengths, weakness, opportunities and threats) analysis of performance, comments on the performance of their sector and a performance benchmark against your sector and against the whole FFD company dataset. The table is a sample of part of the feedback that companies receive to direct them towards activity for the following year.

This company report is followed up by one-to-one private sessions to discuss these reports where companies can explore best practice, better understand how they are perceived by stakeholders and raise any implementation issues.

What is the value added to the business?

Companies can use FFD to support policy development; it provides a relative position within their industry and a platform for those offering real leadership to present themselves to a global audience. For hard-pressed CSR teams, it offers validation that their work is valued externally and for investor relations it is a new communication opportunity. So why not get started? It really is easier than you may think. **EF**

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Biodiversity and economic growth: An intimate relationship*

It is estimated by the United Nations Environmental Programme (UNEP) that 40% of the world's economy relies on biological products or processes, impacting the agricultural/food, pharmaceutical, forestry, tourism and drinking water industries. Therefore, any decline in the world's biodiversity or degradation of our ecosystems is a major threat to all these industries whose activities depend on accessing natural capital - ie. the stock of natural ecosystems that yields a flow of valuable ecosystem goods or services into the future.

Biodiversity risk is also a major challenge for the energy, building, metals and mining industries as these sectors have direct or indirect impacts.

Forests, the reservoir of biodiversity

While forests, or rather their depletion, are one of the causes of global warming, they are also one of the main solutions available to us. According to a number of studies a slowdown in deforestation – which is happening mainly in developing countries - would contribute significantly to reducing GHG emissions. This could be achieved through the establishment of incentives to use land for other purposes, the introduction of better agricultural practices and the stimulation of the natural absorption of carbon through reforestation - and at a lesser cost than other options for reducing these impacts.

The preservation of forests is also essential for those industries that depend on the richness of their biodiversity. Many hopes rely on the innovative approach of the REDD+ project (Reducing Emissions from Deforestation and forest Degradation) which, unlike the Kyoto clean development mechanisms (CDM) that only award carbon credits for new planting, takes into account the avoidance of deforestation (preserving carbon), and also the quantities of CO2 that forests are able to capture, in other words, the sustainable management of forests.

In spite of its potential, forestry is largely underexploited, and has not yet emerged as a key player in the regulated carbon markets. Carbon credits awarded for 'forestation' and 'reforestation' projects represent only 0.9% of all projects, while 60% have been for 'renewable energies', and 20% for projects to 'reduce methane, concrete and mines/coal seams'. This is why we have observed over the last few years an increase in credits being traded in voluntary (non-regulated) markets. These markets however are too small to cope with the scale of the challenges arising from climate change. REDD+ should contribute to making forestry a linchpin in future climate policies after the expiry of the Kyoto protocol in 2012, in the same way that the development of clean energies and clean technologies are today.

Alarmingly, biodiversity is diminishing at an unprecedented speed. The current species extinction rate is thought to be a thousand times higher than what is estimated to be a "natural" rate of extinction. The conclusions of the first phase of the "The Economics of Ecosystems and Biodiversity" (EEB) study showed that 60% of the services provided by the planet's ecosystems are already degraded, and this ecological damage is expected to gather pace with demographic growth, changing land use, economic development and climate change.

Despite the dependence that numerous industries have on natural resources, the link between biodiversity and the profitability of businesses is not always well understood and frequently neglected. Biodiversity is often analysed through a risk/cost method and therefore liability angle when there are in fact many benefits and competitive advantages to be gained from approaching the problem through an investment perspective. Firms can analyse the level of dependency they have on the services / inputs provided by ecosystems, as well as the degree to which their activities influence the decline of biodiversity. Such an approach can lead not only to the identification of biodiversity risks, but also to a roadmap of opportunities that may reduce these vulnerabilities. This type of analysis can also enable firms to identify new markets. For example, companies can substitute some natural resources with alternative resources such as by-products or even recyclable waste from other industries, or the use of advanced techniques or technologies that enable them to reduce their dependence on natural resources.

There are often, within each industry, shared strategies to reduce firms' exposure to the growing impoverishment of ecosystems, or to turn these threats into opportunities by launching new products or services. More generally, strategies for managing biodiversity can be broken down as follows:

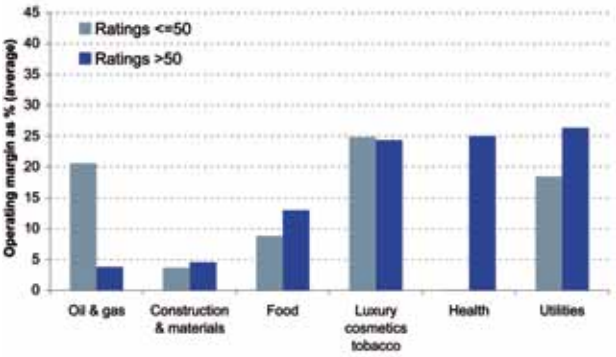
- Taking stock and carrying out an impact study
- Setting targets and establishing measurement and evaluation tools
- Action through 'impact reduction', 'offsetting/ remediation' and 'integration/innovation' strategies
- Performance monitoring and feedback

* Please see the full article, "Biodiversity and economic growth: An intimate relationship" that was first published in issue no. 8 of Investment Acumen, AXA IM's bi-annual research review – www.axa-im.com (in the Research/Multi-expert research section).

Within the financial services industry, taking firms' management of biodiversity into account is an important subject because of the threats (e.g. financing risky projects such as major infrastructure projects) and opportunities (e.g. new market shares and new business) it represents. In the asset management industry, the valuation of assets associated with biodiversity (tangible goods derived from living things such as food) and of services rendered to firms by ecosystems is a complex subject which the Responsible Investment (RI) approach can capture by analysing firms' strategies through an extra-financial lens (eg. evaluation of the costs of prevention, of restoration, of substitution etc). RI also includes being an active shareholder, through direct dialogue and the exercise of voting rights, in order to support the firm in taking into account crucial issues such as its impawct on biodiversity factors. As an illustration, in 2011, 109 shareholder resolutions were deposited at 81 US and Canadian Shareholders General Meetings requesting more transparency on the part of directors with regards to their exposure to climate threats - as well as their envisaged strategic responses.

Operating margin and biodiversity (*)

Source: Vigeo, AXA IM, Worldscope, 2010



(*) 3-year average margin
Oil & gas = oil production and services
Construction & materials = heavy construction and building materials
Utilities = Electricity and Gas, Water and Waste

In fact, there is evidence that the link between profitability and biodiversity is underappreciated. Indeed, research shows that within certain industries characterised by high dependency on biodiversity - particularly the health, food, construction, and utilities sectors - there is a correlation between the quality of their biodiversity strategies and their operational margin (see graph). Firms most highly rated in terms of biodiversity deliver higher margins. In these industries, maintaining and investing in natural resources (eg. genetic resources, forests or water) are mechanisms used to reduce production costs, control supply chain risks and generate sources of growth. The relationship between the quality of a biodiversity strategy and higher operating margins can also be material in industries whose underlying activities affect ecosystems such as the oil and gas industries.

The fight against climate change cannot be addressed without taking into account the depletion of natural resources and ecosystems. Up to 25% of greenhouse gas emissions could be cut if biodiversity depletion were halted. It is essential to combine the two agendas because the responses to one can have unwanted effects on the other - as is the case with biofuel plantations involving the removal of areas rich in biodiversity, or hydrapower programs that deplete terrestrial and aquatic biodiversity. According to the EEB 2009 report, the loss of ecological services could represent up to 7% of global GDP by 2050. This in itself is a good – and sufficient - incentive for firms and politicians to review their accounting systems to ensure that they efficiently account for natural capital with the ultimate aim of incorporating externalities and transforming biological diversity into a source of profit for the business community.

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AXA Real Estate
An AXA Investment Managers Company

Sustainable and Active Forest Investments

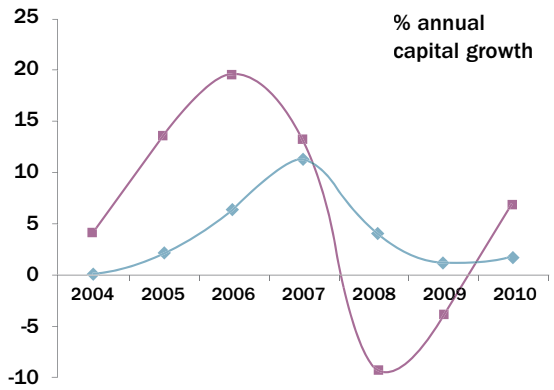
AXA Real Estate* is the largest real estate fund and asset manager in Europe and one of the leaders in the world in terms of AUM with over €39.4 billion of assets under management (as at March 2011)

Over the last ten years, AXA Real Estate has generated transaction volumes totalling over 20,000 ha of forest on behalf of its clients and has plans to diversify its assets under management internationally.

Forest investments, as conceived by AXA Real Estate, are based on a sustainable and active management policy that targets 3 objectives:

- **Getting the best risk-adjusted returns from forest stands:** between forecasting and day-to-day management, the selected strategy consists of moving towards a balanced production of hardwoods and softwoods, while adapting to a range of climate events.
- **Preserving biodiversity:** All forests managed by AXA Real Estate have received a PEFC** sustainable management certification. Moreover, approximately 5% of the land area covered by these forests is catalogued in the European Natura 2000 network (dedicated to the protection of biological diversity and beautification of natural landscapes) or in natural zones preserved in the interests of fauna and flora.
- **Ensuring the sustainable performance of an asset class:** The forest assets have, over the past several years, resisted more effectively than other real estate assets during crisis situations. In addition, forest investments appeared as quite liquid, as well as demonstrated a tendency to have a delayed reaction relative to market cycles; they can also contribute to forming a shield against inflation.

Behaviour of the forest assets compared to other real estate assets



Source:
AXA Real Estate France
June 2011

An enlightening example

One of our most demanding clients, AXA France, is heavily involved in forest allocation: today, on behalf of this client, we manage some fifty forest massifs covering a land area of 18,000 ha throughout the French territory.

AXA France's objective is to have forests represent 1.5%-2% of its total real estate portfolio. This forest-specific allocation acknowledges a lower level of profitability than other portfolio assets and is subject to a specific set of risks (e.g. climate or sanitary risks).

From an environmental perspective and given the scale of real estate assets held by AXA France, this allocation helps contribute to achieving a balance between the greenhouse gas volumes (measured in CO2) that stem from real estate portfolio operations and the carbon sequestration performed by trees during their growth. It here key to note that AXA Real Estate on behalf of its client has also implemented a specific policy aimed at reducing the greenhouse gas emissions from other types of real estate assets.

As confirmed by Christophe Lebrun, Fund Manager within AXA Real Estate: *"By allocating 1.5-2% of its real estate investment assets to forests, AXA France is targeting neutrality in its carbon footprint when taking into account real estate asset management activities."*

* AXA Real Estate is a wholly-owned subsidiary of the AXA IM Group and manages multi-expert assets held by the AXA Group, a world leader in financial protection.

** PEFC is the Programme for the Endorsement of Forest Certification, and is the world's largest forest certification system.

AXA INVESTMENT MANAGERS
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Campaigns

It's good to talk

Environmental campaigners can blindside unwary companies – but a little vigilance and a willingness to communicate in good faith can make all the difference, says Roger Cowe

Barbie gets the chop: Greenpeace trashes Mattel brand over deforestation

By the time the Greenpeace gorillas are scaling your building or scaring your shareholders – as they have over deforestation with companies such as Nestlé and Unilever – it's too late to think about the discussions you might have had to prevent it happening.

Of course there's no guarantee that meeting NGOs such as Greenpeace will keep them off your backs. Ultimately the only way to stop protests is to stop doing whatever people are protesting about, and that's not always possible. But while engaging with protesters is no guarantee of immunity, ignoring them is a guarantee of trouble, especially if you are a high-profile consumer brand owner.

A few years ago it was tempting to dismiss NGOs as unrepresentative troublemakers. That is no longer tenable. Greenpeace, Friends of the Earth, Oxfam, Christian Aid, Amnesty and many others muster very powerful arguments that companies can learn from. They can inflict serious damage on the reputation of companies that fail to address valid concerns the NGOs raise. It is essential to manage the risk and the only way to do that is to engage with those who pose the threat and respond appropriately.

It's true that the fine points of many NGO campaigns will be espoused by a minority of a company's consumers and a tiny proportion of shareholders. Even climate change still has many doubters among the general public. But NGO campaigns are not about the detail. They are about an emotional message: "Your company is killing animals/exploiting children/wrecking the world/ ripping off its customers, suppliers, workers or governments."

The details may soon be forgotten but there will be a thought at the back of many minds that Nestlé and Unilever are somehow harming great apes – and those consumers will never know that the company is now working with the NGOs that attacked them to try and agree a practical solution.

Market research will show that most customers are still more interested in value and quality than in the environment or fair trading. That is an argument for concentrating on pricing and customer service, but not to the exclusion of social, economic and environmental factors that can suddenly come from nowhere to bite you. In highly competitive markets, even a slight shift in preference can make a serious dent in profits.

The first step to pulling that shift in your favour is to understand the issues you face – and especially the ones that are bubbling under and could erupt at any time. That's not easy because they are not always obvious. Deforestation can be about palm oil and soya, and those ingredients are so widely used that a vast range of fast-moving consumer goods brand owners are vulnerable.

Also, NGO targets are often way down the value chain. They include service businesses such as banks, accountants and advertising agencies. It's particularly difficult for these companies to know which clients could drag them into the firing line. Understanding the issues requires an ear to the ground (or increasingly an eye on social media) to keep in touch with the conversations that are going on in relatively obscure corners of the market. Service companies need a screening system to understand which clients are likely to face which controversies.

While engaging with protesters is no guarantee of immunity, ignoring them is a guarantee of trouble

Next, it's necessary to be clear what you can do and where to draw the line. It's not a matter of caving in to every demand. But if you're going to say 'no' you need to have a credible argument. It doesn't just need to be a technically sound argument – it needs to be persuasive to the campaigners and the people they will influence. So look at your position through their eyes. Are you really just saying you don't want to spend the money on using a different material or an alternative source? If so, prepare to be exposed as vicious and uncaring.

Credibility with campaigners depends most of all on them believing the company is serious. Campaigners know a company can't transform its business overnight. They are impatient, but their impatience can be tamed if it's clear there is a shared objective and a plan to achieve it in a reasonable timescale.

Be realistic about what can be achieved. It isn't credible to claim 100% certainty of sustainable sourcing when an accreditation system is in its infancy. It's more credible to have clear requirements, a process to back them up, and a plan for what to do when something unpleasant turns up. Unmonitored voluntary agreements are not credible. Multi-stakeholder groups can be. Independent assurance is best of all.

Openness is vital. If you act as though you have something to hide, people will assume that you have. Own up to mistakes, and make sure there aren't too many of them. Commercial confidentiality is fine, but it should not be an excuse for keeping secret what is not confidential.

Engaging with critics can be time-consuming and tedious. But it will always be easier avoiding the attack than explaining why you're really not the nasty company the campaigners have depicted. **EF**

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The rules around the corner

Regulatory efforts around the world to protect at-risk forests are growing – and unanticipated regulation can hit companies hard. Katie McCoy explains why engagement is the best response

The trajectory that an issue follows from when it is first identified as a concern by society towards eventual legislation is not always easy to plot. If we look back however, we can often see a tipping point where the voluntary is seen to be insufficient and government begins to intervene. When we look at this progression in relation to unsustainable deforestation, Forest Footprint Disclosure (FFD) and its endorsing investors find many companies unprepared for the dramatic changes that can arise once an issue is targeted by those global actors that make and enforce the rules of business life.

How quickly do societal changes come about? Take, as an example, smoking in public. Up to the turn of the century it was not uncommon for people to sit in bars thick with smoke with the bar staff working in heavily polluted environments, complete with nicotine-stained ceilings and furnishing. Knowing what we do about the health impact of this behaviour, making others inhale cigarette smoke was not regarded as sensible even then; people knew that what they were doing was risky to both themselves and those around them. Today businesses and individuals can be prosecuted for this behaviour in the UK and much of Europe and the US – the result of increasingly high standards of expectation and enforcement against those that break the rules. What began as socially suspect behaviour is now outlawed.

Climate change, water scarcity, rural poverty and food security are becoming increasingly prominent issues on the global stage and there are growing concerns about the speed with which we are consuming the world's finite natural capital. However, we are yet to see many formal mechanisms at a global level that require companies to tackle these huge problems. How will society, therefore, move from the recognition of deforestation as an accelerator of climate change to developing common mechanisms, and ultimately legally binding regulations, that help us tackle it?

FFD states that, just as in the smoking example above, unsustainable business practices are 'known' not to be the right thing for either the planet or the long-term health of the companies involved. We also believe that more regulations will be put in place to control the private sector's environmental impacts, and that leading companies know this and are already preparing. Furthermore, legislation in producer countries is already changing behaviour within the supply chain, and consumer concerns and activism are changing expectations in consuming markets.

Campaigns that target 'bad' behaviour are usually an effective starter for raising public awareness of an issue with the public and among policy-makers and regulators. When considering unsustainable deforestation, one only has to picture activists in orang-utan suits gatecrashing high-profile annual general meetings to understand the point. While these 'name and shame' tactics highlighting breaches of acceptable behaviour are effective and can pose a large reputational risk to a company, they can also quickly become yesterday's news. These actions are one factor that influences early movers within the corporate sector but they also help build popular support for regulation and a growing mandate for the politicians that make the laws.

At this stage, FFD's view is that the most effective method for changing 'bad' habits is actually to demonstrate what better practice looks like ahead of potential legislation, and then to show examples of this in action. This is why sharing experiences between companies to help disseminate best-in-class practice is so much part of our philosophy. It helps companies prepare for the changes ahead.

Voluntary codes of conduct to improve behaviour up and down the value chain are part of this process too. These are often developed by a group of leaders from a number of different arenas, including NGOs, industry and trade organisations. They come together to create a collaborative space to build up expertise in addressing issues that are typically too big for one company to solve or require some form of critical mass to take off.

However, it is rare that consensus is immediately reached on emerging issues, especially where different groups are involved in attempting to address the same issues, from different perspectives and with different interests. This can lead to a proliferation of initiatives, often resulting in confusion for the many actors involved, and potentially forcing them to choose which set of standards with which to work, as constrained budgets and resources can make it too expensive to adhere to multiple standards. We have seen this in the timber market, with the development of a number of timber certification standards, and it can now be observed by the current splintering of consensus around standards for sustainable palm oil sourcing. The costs of multiple chain-of-custody systems – which seek to track the provenance of various raw materials – can be a heavy burden on organisations hoping to use certified materials and future regulation has to address how it works with these.

We believe that more regulations will be put in place to control the private sector's environmental impacts – leading companies know this, and are already preparing for them

Pre-regulation, the issues surrounding the production and supply chain control of forest-risk commodities are complex and demand commitment from all parts of the

chain. Any legal code of conduct is only as good as the signatories that put it into action. A failure to achieve buy-in from leading market participants may lead to a situation where those that are adhering to the standards find themselves commercially disadvantaged *vis-à-vis* those that do not follow, leading them to push for formal regulation that ensures a level playing field.

Having originally pushed so hard against voluntary certification, many countries were then happy to engage with the EU Forest Law Enforcement Governance and Trade (FLEGT) process, which makes verification of legal origin the minimum acceptable standard for timber entering the European market and ensures a common set of international expectations. Given these benefits, will those companies currently having to pay more for the use of certified sustainable palm and soy welcome and encourage legislation to make this mandatory for everyone else importing into key markets such as Europe or Australia?

For a voluntary commitment to become legislation requires both political will, often driven by a popular mandate, and commitment from many actors. There are risks to be considered when regulating forest risk commodities, as the relationship between regulation and the use of voluntary standards as a proxy for sustainability is a difficult one. Regulators seek to use the experience of voluntary initiatives when they came to design mandatory systems but, in doing so, they try to create mechanisms in which a universal standard can applied, to be both consistent with the World Trade Organisation and their own regulatory framework for market access. The long-term impacts of regulation must also be considered, to avoid unintended consequences. There is no better example than how the original EU Renewable Energy Directive was developed and sustainability was not considered adequately in the initial version. Retrofitting sustainability criteria into a system that many consider to have been designed with greater interest in self-sufficiency and energy security did no favours either to sustainability or the credibility of the legislative process.

Disclosure and voluntary action is the best defence business has against heavy-handed or ill thought-out legislation

FFD's review of current deforestation-driven regulations suggests that creating successful regulations for commodities requires a deep understanding of the implications of those regulations and the implications for many different stakeholders be considered. Furthermore, it works well if the regulation is based on generally accepted practice and has a vision of what sustainable and security of consumption actually looks like. It must respect dependencies on international trade but also allow for environmental security as well as creating additional economic and social benefits. Enforcement must also be appropriately resourced to allow any regulation to be effective and lead to a genuinely level playing field. Exactly how the EU Timber Regulations will relate to existing voluntary systems such as independent certification systems has yet to be clarified; this will be a test case for how these voluntary models can be integrated into mandatory systems.

With some 20% of global GHG emissions caused by deforestation, with governments increasingly aware of the value of forests as 'eco-utilities', by providing clean water and precipitation, and with a world looking for progress on climate change negotiations, we should expect increased efforts to tackle the drivers of deforestation. Progress on this front could be delivered through the developed world paying countries to preserve at-risk forests, and by denying access to loggers, palm oil planters, soy farmers and the cattle ranchers and refocusing their need for land or commodities elsewhere. It could be delivered through increasing legislation such as FLEGT and the Lacey Act in the US, which is aimed at combating trafficking in wildlife, and it can be delivered through a shift in purchasing policies by governments and private bodies.

Changing attitudes – and regulation follows

FFD is part of the process of the corporate and financial worlds voluntarily engaging, ahead of these regulatory changes, with the global challenges of climate change, land use change, and food and resource security, so as to manage the risk and impact of legal changes as they emerge. We ask for disclosure so those companies that are responsibly managing their consumption of resources are understood and their actions appreciated by the wider market.

We hope that those who don't disclose the actions they are taking, or who simply don't take action at all, will be seen to be at a disadvantage by both investors and wider stakeholders. Voluntary action in our view is best rewarded if it is transparent and available to all. FFD helps organisations learn from the best in class and supports them in achieving more rapid change.

We believe that disclosure and voluntary action is the best defence that business has against heavy-handed or ill thought-out legislation, and the best preparation for future legislation. Without a critical mass of organisations solving problems, regulators step in and often that is where the problems really start. The world does not have time for a long and slow process when it comes to addressing the issue of deforestation. We need to be quick and we need to be nimble – and FFD is happy to get you in shape to play your part. **EF**

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The silent majority

A surprising number of companies have decided not to respond to an information request from investors managing trillions of dollars. Charlotte Dudley asks why not

As awareness of sustainability grows and investors step up engagement with the corporate sector, response rates to requests for environmental reporting are increasing. While only in its third year, the Forest Footprint Disclosure (FFD) Project has already witnessed a significant rise in disclosure.

In 2009, the project's first year, 35 companies out of 217 contacted (16%) disclosed information relating to their use of five commodities driving deforestation, while in 2010 that number increased to 78 out of 285, or 27% of contacted companies. This year, the FFD is targeting 360 companies and says it will be pleased if it achieves a similar level of disclosure as last year.

But what motivates disclosure? And, on the flipside, why do many companies decide not to respond to a request for information sent on behalf of investors managing billions of dollars worth of assets?

Perhaps not surprisingly for a group of non-disclosers, a request by *Environmental Finance* to around 100 companies for feedback on why they had decided (at least in previous years) not to respond to the FFD fell, for the most part, on deaf corporate ears.

Most companies ignored phone calls and e-mails while a number responded with a polite 'no comment'. A few firms claimed not to have received an FFD disclosure request while initial contact with press offices suggest widespread unfamiliarity with the project.

But even among companies that recognise the FFD and want to disclose, it tends to come down to priorities and resources. One European firm was taking stock of its reporting priorities in the wake of a merger. Meanwhile, the story at pizza chain Dominos was a familiar one – a lack of resources combined with a selective approach to the various requests to report.

"We have a very lean head office team and therefore do tend to be careful about not participating in too many voluntary schemes as they are all time consuming," it told *Environmental Finance*, but added that it may disclose to the FFD in the future as it currently does so with the Carbon Disclosure Project (CDP).

A spokesman for the FFD said many businesses lack the necessary information to complete the form, an issue of particular relevance for companies with complex supply chains.

Many non-disclosers highlighted their existing sustainable forestry work or other conservation commitments, possibly suggesting that they don't have the resources for more in-depth disclosure or that they consider the FFD's request an additional burden.

A lot of companies take the line that the issue is adequately addressed in their corporate responsibility report or in environmental reporting elsewhere, says the FFD. For example, California's Clif Bar & Company, a privately-owned maker of organic energy bars, tracks its greenhouse gas emissions through the Climate Registry, and has set a zero-waste target, but has decided not to report to the FFD this year. Meanwhile, Swedish furniture giant Ikea said the FFD project "may well be more useful for those companies that are just beginning to deal with issues that Ikea has been dealing with for well over a decade".

Why do many companies decide not to respond to a request for information sent on behalf of investors?

Ikea – declined to disclose, despite a 'decade of experience' in addressing deforestation

The rising number of environmental disclosure requests is another obstacle for many companies, which complain of 'survey fatigue'.

"There's such a proliferation of these surveys," says Graeme Wild, group investor relations and sustainability manager at pulp and paper firm Sappi in Braamfontein, South Africa. "It can be quite challenging for a company to decide what to and not to take part in, and I think it's in no one's interest to take part in the all the surveys." Sappi, which reports to the CDP and produces sustainability reporting in line with the Global Reporting Initiative, says it responds to those surveys that best address the firm's identified focus areas (forestry is one).

To date, Sappi has not disclosed to the FFD, but that may change this year, depending on whether it feels the questions show a sufficient understanding of the pulp and paper industry, the company says.

"We want our true situation to be reflected rather than be skewed by the questions", says Wild, noting that other forestry-based surveys "can be very heavily biased" towards one certification programme or standard.

Meanwhile, Paul Simpson, chief executive of the FFD Project's older relation, the CDP, points to the increase in disclosure over time. In 2003, 45% of the Global 500 responded to the CDP. By 2010 disclosure had reached 82%.

Several factors influence the decision to disclose, including whether the company feels the questions being asked are important to its business, how many times the company has been asked to disclose and the importance of who is requesting the information.

"We've had companies say: 'Your signatory investors own x percent of our company, of course we're going to respond'," says Simpson.

Peer pressure is another major factor affecting disclosure.

"Clearly it does make a difference what your competitors are doing," says Wild at Sappi. "Having your competitors there makes it more imperative that you take part."

Regulation also plays a key role. Simpson notes that disclosure to the CDP has grown alongside developments such as ratification of the Kyoto Protocol on climate change, the implementation of the EU Emissions Trading System and the expectation of future climate-related legislation.

The FFD argues that as pricing mechanisms and legislation weighs on issues such as carbon, water and forests, companies will be more responsive to non-financial reporting initiatives, adding: "In the meantime, many companies are discovering opportunities to improve their business performance through insights gained by disclosing." **EF**